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What Future for Price in the Cattle Industry?

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A truism: every seller wants the best price that he can get. Cattlemen are no exception. But, what is the "best price"? In terms of dollars and cents, I doubt if a consensus exists. But I think we can define "best price" in terms of what that price represents, what it means in terms of the accuracy and equitability with which it reflects value--the value of the ultimate product to the ultimate consumer and the shares of that value created by different people.

I believe that farmers foremost want freedom and equity. Translated into prices, this means prices which are determined free of coercion and that return to the farmer his proportionate share of the value of the final, consumable product. Freedom from coercion means relatively unconstrained access to markets and to potential buyers or sellers and the opportunity to select from an array of competing bids or offers which are put forth on the other side of the market . . . by persons who are rivals, each seeking to have his bid or offer selected and those of his competitors rejected. Equity means prices which divy-up the economic spoils among participants in proportion to the value that they add. That is, the farmer, the packer, the retailer each get a fair share. And prices which reflect the differences in value of products of different quality, and produced in different locations and at different times.

I believe most of us would agree, such prices are the "best prices". Thus our attention should focus not on what the price is, but how it is determined. That is, what process for price determination generates the "best price"?

Summary remarks on panel discussion, "Who's In Charge?" at the National Livestock Feeders Association Annual Conference, St. Louis, Missouri, February 17, 1977.

There are many ways to determine price--haggling, auctioning, offer-acceptance/rejection, formula, and by mandate, to offer a few examples. But two categories are sufficient to illustrate the major differences: market-determined prices and administratively-determined prices. In agriculture, a large, competitive feeder cattle auction is roughly analogous to the first, and contract production in the broiler industry is roughly analogous to the latter. In the first case, prices can be equitable and free of coercion if there is easy entry and exit to the market, current and reliable information on what is occuring in similar markets, and enough potential buyers and sellers to create rivalry. In the second case, prices tend to be "more equitable" for one party than for the other, and reflect unequal market power stemming from the lack of rivalry on one side of the market, limited market information, and few if any alternatives.

Often, where conditions of the second case prevail, collective bargaining is suggested as a pricing panacea. As many observers see some of these conditions emerging in the cattle industry, they put forth this panacea. Our studies show that this helps the equity problem. It also helps generate stability. That may be good or bad, but of little value in the beef/cattle market which is inherently self-stabilizing. It's implications for freedom of individual action are clear from the term "collective".

The cattle industry is clearly moving toward what I call "specification buying". The reasons for this are tied to merchandising and risk-shifting and are well-known. I'll not repeat them. But it's a gigantic industry--over 130,000 feedlots, 6,000 slaughtering plants, 1 million farms with beef cow herds, and more than 40 million head of cattle slaughtered per year. How many specific kinds of products are there in the industry? Certainly, many times <u>fewer</u> than the number of firms. Thus, there are numerous firms trading in each specific type of product. The point: despite more product specification, the industry is still potentially highly competitive.

But, for markets in this potentially competitive industry to generate the "best" prices, careful attention must be given to the design and operation of those markets. The coordination and efficiency advantages of direct trading and specification buying need to be maintained while the competitive environment for price determination is enhanced. Fortunately, modern technology can be used to create such markets. Telephones and other high-speed methods of communications can be used to collect and disseminate market and price information and to facilitate trading. Computers can be used to assemble, store and update market information by monitoring current trading, and to convert this information into terms that have precise meaning to large numbers of traders. For example, various trades in boxed beef can be readily and rapidly indexed into carcass-equivalent values, carcass prices into live animal values, and so on. Computers can be programmed to talk with traders to collect and disseminate information and to actually conduct competitive bidding. Product characteristics can be accurately and quickly measured with small, portable lasers, infrared scanners and the like, with information inputed directly into market computers as a basis for accurate descriptive trading, eliminating the need for personal inspection and quality judgements. An unlimited amount of trading could be so handled, thus highly competitive national or even international markets for cattle, beef and related products are possible.

Clearly, modern technology can be harnessed to enhance the competitiveness, and thus the "bestness" of market-determined prices in the cattle industry. But, such a market must be developed, and to be effective, must be used. The know-how is here. The incentive to develop and use it rests with you.